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'Benefits outweighed risks'

CIA knew of Rewald's past troubles

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The Central Intelligence Agency knew about Ronald Rewald's past business failure and criminal conviction when it used his Honolulu firm to provide "backstop" cover for CIA agents traveling abroad. The Advertiser has learned.

"They said the benefits outweighed the risks," one investigator said.

But the agency insists it did not know then that there was anything wrong with Rewald's Honolulu firm, Bishop Baldwin Rewald Dillingham & Wong, which collapsed in August 1983 after taking in \$22 million from 400 investors.

With hindsight, both statements indicate major failures of the CIA to do what it is supposed to do — gather and evaluate intelligence.

"They just stumbled very badly," an official said. "When you make a mistake in asking someone to provide cover for your agents, you can end up with dead agents."

The CIA may not have lost any agents, but it has embroiled itself in controversy because of what it calls its "slight involvement" with Rewald. Rewald claims the agency created and ran his firm, and is responsible for investor losses.

Rewald last month was charged by a federal grand jury with 100 counts of fraud, perjury and tax evasion in connection with the Bishop Baldwin operation.

Rewald has told his lawyers that he came to Hawaii in 1977 and almost immediately began supplying information to the CIA, at first to station chief Eugene Welch and later to Welch's successors, John Kindschi and Jack Rardin.

Rewald traded on his past association with the agency. He says the CIA had paid him \$120 a week for several months in 1963 and 1964 to spy on students at the University of Wisconsin. The government then

was trying to find out if campus radicals were getting money from foreign sources.

After Rewald's arrival in Honolulu, the CIA soon approved Rewald's establishment of the first of a series of small companies which agents could use as phone and mail "backstops."

An agent travelling abroad could say he worked for "H & H Enterprises," or "Canadian Far East Trade Corp.," or "CMI." Anyone calling the Honolulu telephone numbers for those companies could be told that Mr. So-and-so was out, was in fact employed by the firm, and would be given a message.

Behind this backstop was a rudimentary paper cover — documents filed with state agencies, listings in various directories, and so on.

It is not clear exactly when the CIA felt it necessary to check into Rewald's background extensively.

One official says that "at the time the CIA asked Rewald to cover the agents, they arranged a secrecy agreement with him and they did know about his background, they did an investigation."

Rewald, this source said, had at first been accepted by the CIA at face value as a "successful businessman." But when his role in providing cover was enhanced, they did the background check.

There is reason to believe the check did not occur until 1980. Kindschi, who dealt with Rewald as station chief until 1980 when he retired and joined Rewald's firm as a consultant, has said he never required Rewald to sign a secrecy agreement and didn't consider him an agent.

Kindschi may himself have been unaware of the criminal conviction;

that sort of information "didn't appear on the radar screen," he once said.

If the background check came as late as 1980, it came after Rewald had established a track record as a willing volunteer, ready to provide rambling reports on business trips he had taken abroad.

When the check was made, the CIA apparently found the court records that showed Rewald was the president of a sporting goods firm in the Milwaukee area that had gone bankrupt in 1976, and that Rewald himself had filed personal bankruptcy papers the following year.

The agency is also believed to have found that Rewald had been convicted of theft in Milwaukee in 1976 in connection with fraudulent business practices.

Despite that red flag, the agency may not have gone much further, one investigator suggests.

By that time, Rewald had already provided stationery and business cards to a CIA agent identified as Richard Cavanaugh, at Cavanaugh's request, indicating that the agent was a businessman working for "CMI," described as a Bishop Baldwin subsidiary, in California.